

Message Text

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ACTION ARA-14

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TAGS: EGEN, EFIN, ETRD, UY

SUBJ: MAJOR ADDRESS ON THE STATE OF THE ECONOMY BY MINISTER
OF ECONOMY AND FINANCE, SEPTEMBER 16, 1977

REF: (A) MONTEVIDEO A-003, (B) MONTEVIDEO A-84

BEGIN UNCLASSIFIED

1. SUMMARY: MINISTER OF ECONOMY ARISMENDI PROVIDED AN OFFICIAL
GOU VIEW OF THE CURRENT STATE OF THE URUGUAYAN ECONOMY IN A
SEPTEMBER 16 PRESS CONFERENCE. HE STRESSED PRIMARILY THE THEMES
OF INFLATION, INDUSTRIAL GROWTH, AND A PROGRAM TO REDUCE LEVELS OF
INDUSTRIAL PROTECTION IN URUGUAY. HE PROMISED A SMALLER TAX LOAD
FOR 1978 AND USE OF VARIOUS GOU LEVERS TO REDUCE PRICE INFLATION.
HE SAW FAVORABLE SIGNS OF ECONOMIC GROWTH INDICATED BY RECENT
LEVELS OF INVESTMENTS AND CAPITAL GOODS IMPORTS AND SOME EVIDENCE
OF INCREASED MANUFACTURING EFFICIENCY. CALING THE WATERS
AGITATED BY RUMORS THAT THE GOVERNMENT MIGHT USE THE SHOCK
APPROACH TO REDUCE INDUSTRIAL PROTECTION, ARISMENDI ASSURED THE
SECTOR THAT THE GOVERNMENT HAD IN MIND A 5-8 YEAR PROGRAM.
END SUMMARY.

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2. MINISTER OF ECONOMY AND FINANCE VALENTIN ARISMENDI ON
SEPTEMBER 16 REPORTED TO THE NATION ON THE STATE OF THE ECONOMY.
THE MINISTER RESPONDED PRINCIPALLY TO TWO ISSUES OF CURRENT
IMPORTANCE -- INFLATION AND REDUCTION OF INDUSTRIAL PROTECTION --
ADDING SOME INDICATORS OF WHAT HE SAW AS SIGNS OF FAVORABLE IN-
DUSTRIAL GROWTH AND JOB CREATION NOW TAKING PLACE IN THE ECONOMY.

INFLATION, NOW RIDING AT A LEVEL OF 60 PERCENT ON AN ANNUAL BASIS, IS FO SPECIAL CONCERN, IN PART BECAUSE IN 1976 THE FIGURES SHOWED A CONSUMER PRICE INDEX INFLATION OF ONLY 40 PERCENT. PEOPLE WANT TO KNOW IF THERE ARE NEW INFLATIONARY TENDENCIES AT WORK WHICH WILL LOOSEN THE MONTARY DISCIPLINE ACHIEVED OF THE LAST THREE YEARS. ARISMENDI ALSO RESPONDED TO THE VOCAL CONCERNS OF THE INDUSTRIAL COMMUNITY HERE WHO FEAR THE APPROACHING FIRST STEPS TOWARD REAL REDUCTION OF TARIFF RATES ON COMPETITIVE INTERNATIONAL GOODS. SINCE THE PRESIDENT OF THE CENTRAL BANK IN INFORMAL CONVERSATION HAD EARLIER DESCRIBED THE SHOCK APPROACH AS PROBABLY THE LEAST COSTLY METHOD OF CHANGE, MINISTER ARISMENDI'S WORDS WERE HIGHLY REASSURING. THE FOLLOWING ARE HIGHLIGHTS OF THE MINISTER'S STATEMENT.

3. INFLATION. THE MINISTER ADMITTED THE GOVERNMENT FAILURE TO REDUCE STILL FURTHER LAST YEAR'S 40 PERCENT LEVEL OF INFLATION AS HE HAD PROMISED IN JANUARY, 1977. HE DID, HOWEVER, PUBLICLY ANNOUNCE THAT STRENGTHENING THE BALANCE OF PAYMENTS, THE PRIORITY GOU TARGET OVER THE LAST TWO YEARS, WOULD APSS TO SECOND PRIORITY BEHIND THE CAMPAIGN AGAINST INFLATION. RESERVE GAINS IN THE CURRENT YEAR ATE ALREADY AT THE \$55 MILLION LEVEL, EQUAL TO THAT OF LAST YEAR. THE MINISTER NOTED THAT THE GOVERNMENT HAD NOT BEEN ABLE TO SOAK UP THE INCREASE IN THE DOMESTIC MONEY SUPPLY CREATED BY STEADILY INCREASING EXPORT SALES. HE EMPHASIZED, HOWEVER, THAT THE ACCUMULATION OF RESERVES WOULD PERMIT THE GOVERNMENT TO VIRTUALLY ELIMINATE BARRIERS TO THE IMPORTATION OF LIMITED OFFICIAL USE

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GOODS, PARTICULARLY THOSE ON THE FAMILY MARKET BASKET LIST, WHOSE DOMESTIC SCARCITY ADDED TO INFLATIONARY PRESSURES. HE ALSO THREATENED REMOVAL OF GOVERNMENT TAX EXONERATIONS FROM THOSE INDUSTRIES WHICH THE GOVERNMENT MIGHT FIND CHARGING UNRASONABLY HIGH PRICES FOR THEIR PRODUCTS.

4. IN HIS PUBLIC ANALYSIS OF THE SOURCES OF INFLATION, HE LAID HEAVIER STRESS ON COUNTER MEASURES THE GOVERNMENT MIGHT TAKE TO CUT THE ESCALATING PRICES WHILE PAYING LESS ATTENTION TO MONETARY FACTORS, A MAJOR PART OF THE CURRENT PROBLEM. MANAGEMENT OF THOSE FACTORS HE CONCLUDED COULD NOT HAVE BEEN HANDLED "DIFFERENTLY." AS FOR HIS VIEW OF INFLATIONARY TENDENCIES OF THE MOMENT, HE ONLY NOTED BRIEFLY SOME MINOR DOWNWARD TREND VISIBLE OVER THE PAST TWO MONTHS. PERHAPS THE MAJOR COMMITMENT HE MADE, BEYOND THAT ON TARIFF REDUCTION, WAS TO "UNDOUBTEDLY" BEGIN THE PROGRESSIVE REDUCTION OF THE TAX LOAD IN 1978. ACCORDING TO HIS PRESS STATEMENT, THE PRESENT NEAR BALANCE IN FISCAL ACCOUNTS LED HIM INTO THAT COMMITMENT, AND TO SUGGEST THAT TAX REDUCTION WOULD STIMULATE CONSUMPTION AND PROVIDE MORE CAPITAL FOR INVESTMENT.

5. INDUSTRIAL GROWTH. THE MINISTER CITED GROWING INTERNATIONAL TRADE, PREDICTED TO REACH OVER \$1.2 BILLION THIS YEAR AND GROWING

ABOUT 10 PERCENT OVER 1976, AS ONE INDICATOR OF INCREASING INDUSTRIAL VITALITY. DATA ON THE IMPORTATION OF CAPITAL GOODS (AT A VALUE OF \$36 MILLION TO DATE THIS YEAR) WERE TAKEN AS A FAVORABLE SIGN OF GROWING PRODUCTIVE CAPACITY, AND THE \$46 MILLION IN PRIVATE INVESTMENTS SEEKING GOVERNMENT APPROVAL AS A FURTHER FAVORABLE SIGN OF ECONOMIC GROWTH. HE ALSO CITED DATA SHOWING INDUSTRIAL PRODUCTION RISING SLIGHTLY AHEAD OF REPORTED HOURS WORKED AS A SIGN OF GROWING EFFICIENCY. THE TREATMENT OF THIS SUBJECT LAID HEAVIEST EMPHASIS, HOWEVER, ON NEW EMPLOYMENT IN MONTEVIDEO WHERE 32,000 NEW JOBS HAVE BEEN CREATED IN THE 18 MONTHS ENDING DECEMBER, 1976. THESE HE SAW AS TAKING CARE OF URUGUAY'S DEMOGRAPHIC GROWTH -- A COUNTERATTACK ON THE POPULAR (AND PROBABLE) NOTION THAT URUGUAY IS LOSING MUCH OF ITS NEW TALENT TO THE GREATER OPPORTUNITIES OFFERED BY ARGENTINA AND LIMITED OFFICIAL USE

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6. REDUCTION OF INDUSTRIAL PRODUCTION. THE MINISTER BEGAN HIS COMMENTS ON THIS SUBJECT BY REPEATING GOU DOGMA THAT IMPORT SUBSTITUTION POLICIES HAD LED TO ECONOMIC STAGNATION IN THIS COUNTRY AND THAT THE SPECIFIC CAUSE WAS EXAGGERATED TARIFF PROTECTION. THESE, HE REPEATED, CUT THE STIMULUS OF INVESTMENT, LED TO IMPROPER ASSIGNMENT OF RESOURCES AND DISCOURAGED IMPORTATION OF NEW TECHNOLOGUES. CURRENT EFFECTIVE PROTECTION, HE NOTED, IS AT AN AVERAGE LEVEL OF 55 PERCENT. BUT ARISMENDI FOLLOWED THAT ANALYSIS WITH ASSURANCE THAT THE SOLUTION WOULD CLEARLY BE ONE OF GRADUAL REDUCTION IN TARIFFS. HE RECOGNIZED PARENT-THETICALLY THAT THE STATE REMAINED THE COUNTRY'S LEAST EFFICIENT ORGANIZATION AND PROMISED IT WOULD HAVE TO IMPROVE ITS OWN EFFICIENCY LEVELS BEFORE PRESSING SOCIAL COSTS ON INDUSTRY. THEN HE COMMITTED THE GOU TO A PERIOD OF CONVERSION

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OF FROM 5-8 YEARS AND SUGGESTED THE GOAL OF AN IDEAL SINGLE
TARIFF OF 30 PERCENT ACROSS THE BOARD. HE PUBLICLY ADMITTED
THE WEAKNESS OF ANY URUGUAYAN CASE AGAINST "PROTECTIONISM" IN
THE INDUSTRIAL COUNTRIES WHEN USUGUAY'S 55 PERCENT AVERAGE
TARIFF IS MEASURES AGAINST AVERAGE LEVELS IN THOSE COUNTRIES OF
BETWEEN 15 AND 25 PERCENT. IN A FINAL ASSURANCE TO URUGUAYAN
INDUSTRY, HE PLEDGED THAT THE COST IN INDUSTRIAL RECONVERSION
WOULD BE BORNE JOINTLY BY THE STATE AND INDUSTRY, AND THAT
OFFICIAL CREDIT WOULD BE AVAILABLE FOR THAT PURPOSE. END
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7. COMMENT: RECENT ADJUSTMENTS IN THE PESO RATE WHICH MADE
IMPORTS MORE EXPENSIVE, CROP LOSSES DUE TO EXCESSIVE RAIN, AND
THE MONETARY EFFECTS OF MAJOR NEW EXPORT EARNINGS ENTERING
THE LOCAL ECONOMY COMBINED TO MAKE THE AVERAGE URUGUAYAN ACUTELY
AWARE OF HIS RECENT REAL INCOME LOSS. THAT LOSS (ABOUT 30 PER-
CENT ON THE GOVERNMENT'S INDEX SINCE 1972) HAS PROBABLY BEEN
ACCENTUATED SINCE LAST YEAR. THE GOVERNMENT NEEDED TO RESPOND
TO PUBLIC CONCERN AND ARISMENDI PROVIDED THAT RESPONSE. HE
DID SO CLEVERLY IN THE FORM OF A PRESS CONFERENCE THAT COULD
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BE LESS FORMAL AND OFFICIAL THAN ON AN ADDRESS TO THE NATION
VIA THE NATIONAL RADIO/TV NETWORK SUCH AS HIS CONCLAVE SPEECH
OF LAST JANUARY (SEE REFAIR(A)).

8. HIS STATEMENT WAS GOOD PUBLIC RELATIONS IN THAT IT PROMISED TO
PUT OFFICIAL LEVERAGE BEHIND A CAMPAIGN TO REDUCE PRICES, BUT
IT WAS ALSO SOMEWHAT DECEPTIVE IN SAYING THAT THE MONETARY
POLICY FOLLOWED WAS ENTIRELY CORRECT. THE EMBASSY UNDERSTANDS
THAT EXCESSES IN USE OF EXPORT INCENTIVES HAVE HAD MAJOR
INFLATIONARY EFFECTS BY CREATING LARGE ADDITIONS TO THE URUGUAYAN
MONEY SUPPLY. THESE PRESSURES ARE BOTTLED WITHIN AN ECONOMY
WITH HIGH TARIFF WALLS AND CANNOT BE ALLEVIATED BY IMPORTATION
AS THEY WOULD BE UNDER A LIBERAL TRADE REGIME. THE MINISTER
RECOGNIZED THIS BY THREATENING IMPORT COMPETITION FOR MARKET
BASKET ITEMS. INTERESTINGLY, THERE WILL BE ANTIINFLATIONARY
EFFECTS IN THE CURRENT APPLICATION OF COUNTERVAILING DUTY
PRESSURES BY THE U.S. TEASURY AGAINST URUGUAYAN LEATHER GOODS

EXPORTS TO THE U.S.; THESE WILL TEND TO MODERATE THE GROWTH OF
EXPORT SALES TO A LEVEL WHICH MIGHT BE SUSTAINED OVER TIME.
TO SOME EXTENT, THE GOU CAN USE THE U.S. PRESSURE TO OBTAIN
A FASTER REDUCTION IN EXPORT SUBSIDIES AND FINANCING TO A MORE
FISCALLY ACCEPTABLE LEVEL.

9. AS FOR ARISMENDI'S COMMENTS ON REDUCTION OF INDUSTRIAL
PROTECTION, THERE SEEMED TO BE NO DIMINISHED REFORMIST ZEAL IN
HIS CRITIQUE OF THIS COUNTRY'S IMPORT SUBSTITUTION POLICIES,
BUT RATHER A PRACTICAL ACCEPTANCE THT THE GOVERNMENT IS NOT READY
TO RISK PUTTING TOO MUCH PRESSURE ON ITS INDISTRIAL SECTOR
IN THE SHORT RUN. IN FACT, THE COMMITMENT IS NOT A SERIOUS ONE
UNTIL THE SCHEDULE OF TARIFF REDUCTIONS OVER THAT PERIOD IS SET.
THE PROCESS OF INFORMAL DISCUSSIONS ON THAT SUBJECT BETWEEN THE
INDUSTRIAL CHAMBERS AND THE GOVERNMENT CONTINUES. END LIMITED
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Message Attributes

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